# More Workers Face Pay Cuts, Not Furloughs

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The furloughs that popped up during the recession are being replaced by a highly unusual tactic: actual cuts in pay.

Local and state governments, as well as some companies, are squeezing their employees to work the same amount for less money in cost-saving measures that are often described as a last-ditch effort to avoid layoffs.

A new report on Tuesday showed a slight dip in overall wages and salaries in June, caused partly by employees working fewer hours.

Though average hourly pay is still higher than when the recession began, the new wage rollbacks feed worries that the economy has weakened and could even be at risk of deflation. That is when the prices of goods and assets fall and people withhold spending as they wait for prices to drop further, a familiar idea to those following the recent housing market.
A period of such slack economic demand produced a lost decade in Japan, and while it is still seen as unlikely here, some policy-making officials at the Federal Reserve recently voiced concern about the possibility because the consequences could be so dire.

Pay cuts are appearing most frequently among state and local governments, which are under extraordinary budget pressures and have often already tried furloughs, i.e., docking pay in exchange for time off. Warning that they will have to lay off people otherwise, many governors and mayors are pressing public employee unions to accept a reduction in salary of a few percentage points, without getting days off in exchange.

At the University of Hawaii, professors have accepted a 6.7 percent cut. Albuquerque has trimmed pay for its 6,000 employees by 1.8 percent on average, and New York's governor, David A. Paterson, has sought a 4 percent wage rollback for most state employees. State troopers in Vermont agreed to a 3 percent cut. In California, teachers in the Capistrano and Pacheco school districts have accepted salary cuts. “We’ve seen pay freezes before in the public sector, but pay cuts are something very new to that sector,” said Gary N. Chaison, an industrial relations professor at Clark University. Outsize pension costs and balanced budget requirements are squeezing many states as tax revenue has come up short.

It is impossible to say how many employers have cut workers’ pay, because the government does not keep such statistics. Economists say a modest but growing number of employers have ordered wage cuts, especially in the public sector. In a 2010 survey by the National League of Cities, 51 percent of the cities that responded said they had either cut or frozen salaries of city employees, 22 percent said they had revised union contracts to reduce some pay and benefits, and 19 percent said they had instituted furloughs.

Some businesses are also cutting workers’ pay, often to help stay afloat or to eliminate their losses, although a few have seized on the slack labor market and workers’ weak bargaining power to cut pay and thereby increase their profits and competitiveness.

Economists note that wages continued to increase in 2008 after the recession began, even adjusted for inflation. But those wages have been flat for the last 18 months, according to the Bureau of Labor Statistics.
Mr. Chaison says the latest wave of private-sector pay cuts is reminiscent of those in the early 1980s, when many companies — especially those with unionized work forces — cut wages in response to a recession, intensified competition from imports and new low-cost competitors spawned by government-backed deregulation. Now, as then, companies frequently say that compensation for unionized workers, in both wages and benefits, is out of line. For instance, the Westin Hotel in Providence, R.I., after failing to reach a new contract with its main union, has sliced wages 20 percent, saying its previous pay levels were not competitive with those at the city’s many nonunion hotels.

Factory owners sometimes warn that they will close or move jobs to lower-cost locales unless workers agree to a pay cut. In its most recent union contract, General Motors is paying new employees $14 an hour, half the rate it pays its long-term workers.

Sub-Zero, which makes refrigerators, freezers and ovens, warned its workers last month that it might close one or more factories in Wisconsin and lay off 500 employees unless they accepted a 20 percent cut in wages and benefits. Management warned that it might transfer those operations to Kentucky or Arizona, saying it needed lower costs because sales were weaker than hoped.

The pain is felt across industries. At the Seattle Symphony, musicians have taken a 5 percent pay cut, while ABF Freight System, a major trucking company, has asked the Teamsters to agree to 15 percent less. The St. Louis Post-Dispatch has lowered pay 6 percent, while Newsday has gotten its staff to accept a 5 to 10 percent pay cut.
While most of the pay cuts seem to hit unionized workers, David Lewin, a professor of management at the University of California, Los Angeles, who has written extensively on employee compensation, says some cuts are also quietly taking place among nonunion employers.
Reed Smith, a firm with 1,500 lawyers, has cut salaries for first-year associates in major cities to $130,000 from $160,000. Warren Hospital, a nonunionized facility in Phillipsburg, N.J., ordered pay cuts of 2 to 4 percent because lower Medicaid reimbursements had squeezed the hospital's finances.

Fast-rising pension and health costs are making benefit costs grow more rapidly than wages, some employers say, and cutting wages is often easier than other ways to pare labor costs. But some workers say these cuts are unfair at a time when corporate profits and employee productivity have risen strongly.

Sometimes unions and their workers cooperate with management on pay cuts, hoping to recoup some wage increases when conditions improve. In Madawaska, Me., 460 unionized workers accepted an 8.5 percent wage cut in May to help keep their paper mill in business.

"Workers, of course, do not like to have their pay cut, but I think that workers' major concern now is, 'Do I have a job?' " Professor Lewin said. "If the unemployment rate were lower, we'd see a lot more resentment toward pay cuts."

But workers sometimes fight back — particularly if an employer doesn't show signs of distress.

In Albuquerque, where the mayor pushed through pay cuts to bridge a $66 million budget deficit, the largest union of municipal workers is suing, arguing that the mayor's plan should include furloughs.

The mayor, Richard J. Berry, rejected that idea. "You want to keep people employed. You want to preserve public services. And you don't want to raise taxes," he said. "When you're trying to lower the cost of government while maintaining services, furloughs don't do the trick."

Albuquerque would have to trim at least 100 jobs without the cuts, he said, which top out at 3.5 percent for employees earning more than $90,000. Those earning under $30,000 will not be affected.

At the Mott's apple juice and sauce plant in Williamson, N.Y., 30 miles east of Rochester, 300 unionized workers have been on strike since May 23 over management's demands for a $1.50-an-hour wage cut, a reduction in company 401(k) contributions and higher employee contributions to health insurance. The strikers are seething over management's demands because the plant has been profitable and Mott's corporate parent, the Dr Pepper Snapple Group, reported record profits last year.
"They keep piling more and more work on us, but they want to pay us less and less," said Michele Morgan, a Mott's employee. "It's a slap in the face."

Chris Barnes, a company spokesman, said the Mott's employees were overpaid, at $21 an hour, given that the average in the area for food manufacturing workers was $14 an hour. The union disputes those figures.

"Our only objective," Mr. Barnes said, "was to continue to enhance the competitiveness and flexibility of our operations."

James Rajotte for The New York Times

Lynn Fillinger at the Mott's plant in Williamson, N.Y. Workers went on strike on May 23 over demands to cut pay and benefits.